

2023 Year-End Tax Planning and Related Topics

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URGENT

Donor Advised Fund Appreciated Stock

Example: Sam owns 100 shares of Apple worth \$17,500 (\$175 per share). His basis in the stock is \$3,000. He would like to contribute the stock to a Donor Advised Fund to get a \$17,500 tax deduction on his 2023 tax return.

Donor Advised Fund Appreciated Stock

Example: Sam should arrange and in-kind transfer of those 100 Apple shares to a donor advised fund. To get the tax deduction in 2023, it must happen by New Year's Eve. As a practical matter, many financial institutions will require it happen significantly sooner than that.

Note that by transferring the shares directly to a donor advised fund, Sam eliminates the \$14,500 built-in capital gain on the shares and will never have pay tax on that gain!

Taxable Roth Conversions

Example: Sally is age 56, single, on employer retiree healthcare, and retired. In November she estimates her 2023 taxable income as follows and does Roth conversions as follows.

Item	Amount
Interest (A)	\$2,000
Qualified Dividends (B)	\$3,000
Long Term Capital Gains (C)	\$25,000
Adjusted Gross Income (A + B + C) (D)	\$30,000
Standard Deduction (E)	\$13,850
Preliminary Taxable Income (D - E) (F)	\$16,150
Top of the 12% Federal Tax Bracket (G)	\$44,725
Roth Conversion Prior to Year-End (G - H, conservatively rounded)	\$23,000

Taxable Roth Conversions

Considerations:

- Keeping total taxable income below the top of the 12% bracket keeps both qualified dividends and long-term capital gains as federal income tax free.
- Consider income stacking: the federal income tax on the \$23K Roth conversion is only \$1,118 (4.86% rate). Why? As ordinary income, the Roth conversion is taxed against the remaining standard deduction (\$11,850), the 10% bracket (\$11,000), and just \$150 against the 12% bracket.

Taxable Roth Conversions

Considerations (Continued):

- Consider Premium Tax Credit (i) qualification and (ii) diminution (by approximately 10% to 15%) with respect to Roth conversions.
- Analysis should not be done last minute, and Roth conversions should not be done last minute. Remember, the deadline is December 31, 2023.
- Tax Hikes coming in 2026? What has two thumbs and doesn't think so: **THIS GUY!**

Adjust Withholding

Review most recent pay stub against federal and state total tax for 2022. Are you significantly over or under withheld? Consider filing new forms with employer to increase or decrease W-2 withholding for the remainder of 2023 and then refile forms in early 2024 to help ensure appropriate withholding for 2024.

Backdoor Roth IRA Diligence

For those doing the Roth conversion step of a Backdoor Roth IRA in 2023, December 31, 2023 is the day one should have \$0 balance in all traditional IRAs, SEP IRAs, and SIMPLE IRAs to ensure the Backdoor Roth IRA is tax efficient and avoids the dreaded Pro-Rata Rule.

Solo 401(k) Planning

Solo 401(k)s have various deadlines, some of which revolve around December 31st. Regardless of the deadlines, they require planning and intention and solopreneurs should consider them sooner rather than later.

I have an [educational resource](#) for that consideration.

Year-End Deadline

Tax Gain Harvesting

Example: Samantha is age 56, single, on employer retiree healthcare, and retired. She has 400 shares of Acme stock worth \$175 per share with a \$75 per share basis. She estimates her income and sells 230 Acme shares before year end (and either reallocates or reinvests).

Item	Amount
Interest (A)	\$2,000
Qualified Dividends (B)	\$3,000
Long Term Capital Gains (C)	\$25,000
Adjusted Gross Income (A + B + C) (D)	\$30,000
Standard Deduction (E)	\$13,850
Preliminary Taxable Income (D - E) (F)	\$16,150
Top of the 12% Federal Tax Bracket (G)	\$44,725
Tax Gain Harvesting Gain Triggered Prior to Year-End (G - H, conservatively rounded)	\$23,000

Tax Loss Harvesting

Tax losses for 2023 must be triggered by December 31, 2023. Can offset (i) capital gains without limit) and beyond that (ii) ordinary income up to \$3K per tax return (unused losses carried forward without limit).

Watch out for the 61-day wash sale rule window. Includes dividend reinvestment, but that is usually not too significant since the wash sale rule is a “to the extent of” rule.

Take Your RMDs

Those with 2023 required minimum distributions from retirement accounts must take them by December 31st.

This includes inherited retirement accounts. Those inherited after 2019 may not have RMDs this year (depends on circumstances) but may be subject to the 10 year rule, meaning that you may want to take a distribution regardless so that the account doesn't build up too much prior to the expiration of the 10 year timeframe.

Can Wait Till Early 2024

Traditional and Roth IRA Contributions

The deadline for 2023 traditional and Roth IRA contributions is April 15, 2024.

- Be sure that any 2023 contributions made during calendar year 2024 are specifically designated as being for 2023.**

Backdoor Roth IRA Deadline

There's no law saying "the deadline for the Backdoor Roth IRA is DATE X." However, the deadline to make a nondeductible traditional IRA contribution for the 2023 tax year is April 15, 2024.

Health Savings Account Contributions

The deadline to fund an HSA for 2023 is April 15, 2024.

- Consider maxing out through payroll tax deductions in the future.

The deadline for those age 55 and older to fund a Baby HSA for 2023 is April 15, 2024.

Related Topics of Interest

Unique California Opportunity

Incredibly enough, most Californians have until November 16, 2023 to make 2022 traditional IRA, Roth IRA, and HSA contributions.

Estate Tax Planning

Remember, very few Americans are ever subject to the estate tax.

- Annual exclusion gifts (2023 limit is \$17K per donor per beneficiary, up to \$18K in 2024).
 - Gifts in excess of that amount almost certainly do not trigger gift tax, but do trigger a Form 709 filing requirement).
- Estate tax exclusion scheduled to go down to approximately \$7M in 2026.
 - Consider spousal portability
- Taxable accounts receive step-up in basis regardless of whether the estate is subject to estate tax.

Special Opportunities for FI Adherents

Traditional 401(k) contributions reduce taxes at today's marginal rates. It is highly unlikely one's effective rate in retirement (particularly in the FI community) will exceed one's marginal tax rate during their working years.

- Consider Roth conversion opportunities in early and mid retirement.

For many in the FI community, the dynamic duo may be (1) traditional Solo 401(k) contributions and (2) Roth IRA contributions.

Finding Financial Planners and Tax Return Preparers

Unfortunately, there is no silver bullet in this regard. No network or credential is sufficient to ensure that the professional is a good fit for you.

There are no perfect professionals, but there are plenty of good professionals for you.

Consider virtual interviews with several potential providers before making a decision.

I discuss the challenges people face finding tax planners starting at 13:36 [on this episode](#) of The Military Money Show podcast.

Questions?